



**House
Legislative
Analysis
Section**

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INSURANCE COMPANY TAKEOVERS

House Bill 5290 (Substitute H-1)
First Analysis (3-29-90)

Sponsor: Rep. James M. Middaugh
Committee: Insurance

THE APPARENT PROBLEM:

Chapter 13 of the Insurance Code, which deals with holding companies, says that the insurance commissioner must approve any acquisition of or attempt to acquire control of a domestic insurance company. (Control means the power to direct or cause the direction of the management or policies of a person or entity, and the code presumes that ownership of ten percent or more of the voting securities is control.) The term "domestic insurer" usually refers to a Michigan-based company, but for the purpose of these provisions, it also includes a parent entity that controls a domestic insurer, no matter where that parent is located. It does not, however, include a parent entity that "is either directly or through its affiliates primarily engaged in business other than the business of insurance." This means if one large company or conglomerate merges with or takes over another large company that owns a Michigan-based insurance company, the transaction must be reviewed and approved by the state insurance commissioner if the parent company's primary business is insurance but need not be reviewed if the parent company's principal business is something other than insurance. The purpose of the review is to see that the assets of the insurer and, thus, the interests of the policyholders, will be protected in the transaction. Some people believe that insurance regulators should review all such cases, regardless of the primary business of the company controlling a Michigan-based insurer.

THE CONTENT OF THE BILL:

The bill would amend Chapter 13 of the Insurance Code in the following ways:

- It would require notice to and approval by the insurance commissioner before anyone could acquire or gain control of an entity that itself controls a domestic (i.e., Michigan-based) insurance company, even in cases when the parent entity is primarily engaged in business other than insurance. (The bill does this by deleting the exemption for parent entities principally engaged in other businesses.) The bill would also require the filing of a pre-acquisition notification with the insurance commissioner at least 30 days prior to the proposed effective date of the acquisition. The nature of the form would be prescribed by the insurance commissioner.
- Section 1324 of the Insurance Code requires insurance companies that are members of an insurance company holding system and authorized to do business in the state to register with the commissioner, but domestic companies are not required to register if they do not transact business in any other state. The bill would require domestic companies to register beginning May 1, 1991.

MCL 500.1311 and 500.1324

FISCAL IMPLICATIONS:

The bill has no budgetary or revenue implications, according to the Insurance Bureau. (3-27-90)

ARGUMENTS:

For:

The bill would extend the insurance commissioner's power to scrutinize proposals to take control of (for example, through mergers and acquisitions) domestic insurance companies by extending that authority to cover cases when a Michigan-based insurer is controlled by a parent entity that is not primarily in the business of insurance. Such cases are exempt now. The primary business of the parent company should not be the factor that determines when the interests of policyholders should be protected. Under this bill, if someone attempts to take over, or otherwise control, a conglomerate that includes among its holdings a Michigan-based insurer, notice to and approval by the state insurance commissioner will be required.

For:

The bill would require all companies that are members of insurance holding company systems to register with the insurance commissioner by removing the exemption for domestic insurers that sell insurance only in Michigan. Insurance regulators say that currently 56 of the 62 domestic insurers who are members of holding companies already file what are known as "Form B" registrations, and this bill will require the other six to file this form as well. According to the Insurance Bureau, Form B "contains a wealth of information concerning the make up and financial stability of the holding company, and discloses the insurer's 'ultimate controlling person,' transactions and agreements among affiliates, litigation, biographical information on officers and directors." The bureau says it needs access to Form B information for all insurers, including those that operate only in this state, in order to protect Michigan policyholders adequately.

Against:

The bill would require the approval of the state's insurance commissioner before some very large corporations could be sold, acquired, or merged, which seems inappropriate. Insurance regulators offer as examples of affected companies General Motors, Ford, Chrysler, Dow Chemical, and Household Finance. In such cases, the insurance portion of the companies' business is relatively minor, and the involvement of state insurance regulators seems out of place.

POSITIONS:

The Insurance Bureau supports the bill. (3-27-90)

Household International supports the bill. (3-27-90)

The Life Association of Michigan supports the bill. (3-27-90)

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